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INTELLIGENCE HIGHLIGHTS - WEEK OF 6 APRIL - 12 APRIL 1948

GENERALReactions to indicated change of US attitude toward Japan

A change in the US attitude toward Japan, in the direction of directly encouraging and expediting substantial economic rehabilitation in that country and providing for greater freedom of action by the Japanese Government, has been indicated by recent statements and reports made by the US Army's Draper Mission and Strike Mission (see page 2) and by other official and unofficial visitors to Japan. Moreover, SCAP has recommended that the Japanese again be permitted to travel abroad to study cultural and scientific advances.

Foreign reaction to this indicated change in US attitude has been prompt and varied:

(1) Australia: Prime Minister Evatt has indicated that Australia remains apprehensive about the possibility that Japan might again become a security threat, favors settlement of the Japanese problem by means of an early peace treaty, and opposes the return of Japan's standard of living to a level higher than those of the nations devastated by Japan. In connection with the travel of Japanese abroad, it appears clear that they will be categorically excluded from Australia, at least for the near future.

(2) United Kingdom: The UK appears somewhat irritated at apparent US unwillingness to confide in the Foreign Office regarding the developing Japanese situation. The UK is apprehensive lest the US take unilateral action rather than working through the Far Eastern Commission which the UK would prefer.

(3) China: China likewise has indicated a hope that the US will refrain from unilateral action. While that part of the Chinese press which is considered most representative of public opinion continues to make violent attacks on US policy in Japan, some official Chinese sources have indicated a certain amount of approval of the new US attitude, but emphasize that there must be guarantees against Japan's once more achieving a position where she can be a threat to its Far Eastern neighbors. A concrete indication of the official Chinese attitude is the fact that for the first time since the Japanese surrender three Japanese have been visaed by the Chinese Government for a 45 day inspection of Hainan iron mines.

(4) Philippines: Reaction to the most recent development has been scanty, but earlier expressions of attitude in the Philippines indicate that sensitivity to Philippine security and general dissatisfaction with what is felt to be a too generous US attitude toward Japan will keynote the Philippine position.

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KOREA

Indications of purge in North Korea. In the North Korean Labor Party sessions which opened on 27 March the discussion was focused on party solidarity. The stress on the removal of party conflicts by the conferees through "a merciless ideological battle and increasing political training of the party" gave some support to the indications that there have been some top level purges in North Korea. It has been observed that new names are appearing in places of responsibility in the North Korean Labor Party.

The liquidation of party conflicts would bring the North Korean Labor Party a step closer to its objective of a consolidation of the North and South Korean Labor Parties and complete mobilization to fight the "American imperialists and their plans to form a separate government and hold separate elections in South Korea."

JAPAN

Screening and Purge Appeals Commissions to be dissolved. The Japanese Government announced on 25 March that the Central and Local Screening Commissions and Purge Appeals Commissions created on 10 January, 1947 will be abolished on 10 May. Thereafter new applicants for public office will have their qualifications screened by the prefectural governor or the Cabinet. (Since the Committee began its work in April 1947 approximately 200,000 individuals have been purged out of the 1,200,000 government officials, experts of the economic and financial field, individuals in press and publicity circles and members of jingoistic organizations who have been screened). After the abolition, the Cabinet Investigations Section will handle minor cases while on those of a politically more important nature an advisory committee will make recommendations to the Cabinet. On the surface this would appear to give the Government party or parties a strong instrument for perpetuating itself in power.

US Army missions favor Japanese economic expansion

The reported views on the future Japanese economy of the mission headed by Undersecretary of the Army Draper are in line with the recommendations as to the extent of reparations removals contained in the 26 February 1948 report of Overseas Consultants, Inc. The latter group consisted of US engineers under contract to the Department of the Army, who were headed by Clifford Strike (Strike also submitted a reparations report in the early part of 1947). Both of these groups call for making Japan self-supporting within a reasonable period of time. They recommend the expansion of Japanese industry, practically without restraint except for removal of war industry; expansion of Japanese foreign trade, and rebuilding of Japanese shipping. These views represent a swing away from the early postwar theory of taking away as reparations Japan's "war-supporting" industries.

Draper is said to have outlined a four-year program for Japanese recovery under which Japan would be given by the US for the first year \$150,000,000 for raw materials and other recovery items. This would be in addition to relief and occupation expenses. Although plans are indefinite beyond the first year, he estimated that the recovery effort would add up to \$500,000,000

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or less for the four years (excluding relief and occupation outlays).

The Report of Overseas Consultants, Inc. (Strike Report) in effect recommends against removal of any productive facilities except primary war materials which can be effectively used in Japan, on the grounds that removal would hurt world production, reduce the likelihood of Japan ever becoming self-supporting, and in any case, increase the time required to accomplish this objective, would be expensive to the Japanese taxpayer, and would not be in the best interests of the claimant nations. It recommends that all steel-rolling and blast furnace facilities, all aluminum reduction plants and most chemical establishments be exempted from removal as reparations. The gist of its conclusions is stated as follows:

"We realize that the first requirement for waging modern warfare is a strong industrial economy. Even the ability to produce more food increases a nation's war-making potential. A strong, industrial Japan is, therefore, potentially a strong military power. In our opinion, however, a strong industrial Japan would be less risk to the peace and prosperity of East Asia than a continuance of the present state of instability and economic maladjustment in this vast and populous region."

Perhaps the most significant aspect of the Strike recommendations is the omission of steel from the reparations list. Strike states that the present annual productive capacity of steel ingot* is insufficient to produce the amount of steel his group estimates will be required in 1953, without allowance for exports. His recommendation contrasts with that of Pauley (1946) of leaving for retention an annual capacity of 2,250,000 metric tons, FEC's interim level (1946) of 3,500,000 metric tons and SWNCC's designation of 3,500,000 metric tons.

The following tables illustrate the sharp differences between the SWNCC designations (SWNCC 236/43, 7 April 1947) and the Strike recommendations. Table A compares the designations in SWNCC 236/43 of plant facilities to be selected for retention in Japan and to be made available for reparations in order to leave in Japan the capacities in certain industries which have been tentatively determined by SWNCC as necessary for a self-supporting Japanese economy; Table B portrays the views of Overseas Consultants, Inc. as to which facilities should be made available for reparations together with their estimated capacities and values:

* Strike estimates that present operable capacity is about 7,000,000 metric tons per year. According to his report, an additional 1,000,000 tons capacity is now inoperable due to war damage and general deterioration.

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JAPAN (Cont.)

Table A - - SWICC Determinations

Industry	Unit	Annual Productive Capacity Designated		Value of Facilities Designated for Reparatons (1939 yen)
		for Retention	for Reparatons	
Pig Iron	Metric tons	2,000,000	1,600,000	()
Steel Ingots	Metric tons	3,500,000	2,900,000	(390,314,000)
Steel Rolling	Metric tons	2,650,000	1,550,000	()
Sulphuric Acid	Metric tons	3,510,675	1,245,075	25,201,000
Nitric Acid	Metric tons	30,295	106,954	9,648,000
Electrolytic				
Caustic Soda	Metric tons	82,500	46,300	22,632,000
Soda Ash	Metric tons	493,000	-	-
Synthetic Oil	Kilolitres	-	-	-
Synthetic Rubber	Metric tons	-	900	10,236,000
Machine Tool				
Manufacture	Number	10,000	26,970	145,695,000
Ball and Roller Bearing	Yen	32,500,000	59,318,000	24,537,000
Thermal Power in Grid Systems	Kilowatts	1,906,000	366,360*	7,851,000
Merchant Shipping	Gross tons	1,240,500	59,500	23,700,000
Shipbuilding	Gross tons	153,000*	648,100	
Ship Repair	Gross tons	4,526,490	2,693,350	163,120,000
Petroleum Refining	Barrels	9,807,550	-	-
Petroleum Storage	Barrels	7,293,000	-	-
Aluminum Reduction	Metric tons	25,000	68,100	86,418,000
Aluminum Fabricating	Metric tons	-	110,000	66,180,000
Magnesium	Metric tons	-	680	14,501,000
Total				990,033,000
Primary War Facilities				1,475,337,000
Total				<u>2,465,920,000</u>

*Mainly generators without boilers.

**This amount is sufficient to service 3,017,000 g.t. per yr.

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JAPAN (Cont.)

Table B - - Strike Report Recommendations as to capacities (and values) of removals for reparations.

Industry	Unit	Capacity Designated for Reparations	Value (1939 yen)
Nitric Acid	Metric tons	107,000	9,648,000
Synthetic Rubber	Metric tons	900	10,236,000
Shipbuilding	Gross tons	385,000	118,138,000
Aluminum and Magnesium Fabricating	Metric tons	50,000	21,688,000
Magnesium Reduction	Metric tons	480	12,559,000
Subtotal			172,269,000
Primary War Facilities			1,475,887,000
Total			<u>1,648,156,000</u>

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CHINA

Military

25X1X The current lull in the Manchuria fighting continues with the rumored attack on Changchun failing to develop. Communist troops are still deployed in the same general area between Mukden and Changchun. According to US Consul General in Mukden, General Wei Li-huang is now feeling better about his ammunition situation and reports that the Mukden arsenal is now producing large quantities of arms and ammunition and that some 18 C-46 plane loads are arriving daily from Chinchou. However, [redacted] there is a "strong suspicion" in Nanking that the Generalissimo has decided to write off the Northeast (Manchuria) and that prevalent press coverage of Nationalists reinforcements and drives into the area are primarily designed to feed the hopes of occupying Nationalist forces.

Communist forces in North China, continuing their efforts to destroy communications between Fu Tso-yi's main forces in the Peiping-Paoing area and their primary source of supplies in Suiyuan, struck northwest from Tatung in the direction Kuisui. They also cut the Peiping-Suiyuan railroad between Peiping and Kalgan, concentrated forces for an attack on Chengteh, provincial seat of Jehol, and were active in the Peiping-Paoing-Tientsin triangle. Following the recapture of Loyang in Central China, Communist forces under Chen Keng, abetted by additional units under Chen Yi, began to move on the important railway towns of Chengchow and Kaifeng, and have already cut all overland communications with these centers. Food shortages reportedly have driven the bulk of Liu Po-cheng's forces out of the Tapiehshan. These units, plus still other Chen Yi troops, are active in the Pengfou, Fouyang area of northwest Anhwei.

The Nationalist high command, after assessing the Communist menace in Central China and their own shortage of armed troops, has decided to place top military priority on the anti-communist campaign south of the Yellow River, delegating the question of Manchuria to a place of secondary importance.

Political

Chiang Kai-shek's attempt to withdraw his name as a presidential possibility has only served to increase his authority and prestige. The Kuomintang Central Executive Committee and many National Assembly delegates have insisted that he run, with the result that the Kuomintang will submit no official candidate and will leave the election entirely up to the National Assembly. There appears little doubt that Chiang will be elected. Sun Fo continues to be the favorite for the vice-presidency, which will also be fought out on the floor of the National Assembly with no official Kuomintang candidate. If Sun Fo prefers the presidency of the Legislative Yuan to the vice-presidency of China (and it appears that he cannot hold both), then Li Tsung-jen's chances for election will vastly improve.

The National Assembly has devoted most of the past week to a discussion of an agenda. There was a strong move to increase its powers to allow discussion of any topic affecting the nation, but the agenda finally adopted calls for the presidential election on 19 April, the vice-presidential one on 23 April,

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and adjournment on 24 April. Chiang Kai-shek speaking on the subject of the National Assembly at a weekly memorial service and reminding Kuomintang members that during the Assembly they should present an united front, announced that the Constitution should not be amended before it is fully implemented, there is no legal basis for a standing committee in the Assembly, the adjournment must come as now scheduled, and the next Assembly will meet three months after total suppression of the Communists.

Students in Peiping have been active since the Government order for the disbanding of the North China Student Federation. As a protest a three-day strike was begun on 3 April. The disorders have rapidly been increasing and are now taking the form of resistance to the arrest of students. Part of the difficulty lies in clashes among the students themselves while some professors have supported the student strikers in their arguments with the authorities. The worst violence occurred 11 April when a mob reportedly consisting of some 5,000 farmers and workers staged a demonstration against the student strike which they charged was Communist-instigated. Reports of student unrest have also come from several other Chinese universities.

A second round of notes exchanged between China and the USSR over the recent incident of the Chinese transport fired on by Soviet planes from Port Arthur indicates that the USSR is tightening control over the Dairen-Port Arthur area. A second Chinese protest, dated 19 March, claimed sovereignty over the area traversed by the attacked CAT transport. However, the Soviet reply of 5 April notified China that Soviet clearance must be obtained for Chinese planes passing over Port Arthur.

In the negotiations following China's request last fall to consider revision of the Sino-American Air Transport Agreement of December 1946, China continues to press for the US to relinquish the right to carry "Fifth Freedom" traffic via the Hong Kong-Shanghai route. China bases her argument on the grounds that there is a discrepancy in meaning between the Chinese and English texts of the treaty on the point and that the Hong Kong airport is situated on Kowloon (Chinese territory leased to the British) and therefore such traffic constitutes cabotage. The Chinese Government, which fears unfavorable competition to Chinese airlines if forced to confirm these rights to the US and subsequently grant them to other countries, has raised the possibility of a Chinese denunciation of the Air Transport Agreement or of resorting to arbitration by the ICAO. The UK already enjoys these rights.

Chang Chih-chung, Director of the Generalissimo's Northwest Headquarters, who acts as spokesman in the Government's negotiations with Sinkiang leaders, has told Ili leaders that Governor Masud of Sinkiang would not be removed, as they desire, but that there would be an election soon in the province. The possibility is that negotiations between the Chinese Government and the Ili leaders are still in progress looking toward a settlement of the confused political situation in Sinkiang on the basis of substantial Turki autonomy.

Economic

Speech. Chiang Kai-shek, in his "State of the Nation" address 9 April, stated that the CNC note issue as of 31 March had reached 70 trillion, and

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that the total amount (equivalent to US \$110 million at current blackmarket rate) could be redeemed with gold and silver now held by the Central Bank. This reported total of CN \$70 trillion represents an average monthly increase of over 30% since last December. The UP reported the Generalissimo as stating that with the additional gold reserves, Japanese reparations, other assets and US aid, the Government's total holdings amount to US \$1 billion, "which is 2 1/2 times the amount the government has ever had before". Actually, however, China's dwindling gold, silver and other usable exchange assets, including indispensable working balances, are now estimated to total about US \$275 million. The Generalissimo included in the US \$1 billion items such as US aid and reparations, which cannot be classed as monetary international exchange holdings.

Currency/Prices. The exchange market reacted sharply during the past week to uncertainties over the administration of the US aid program and possible Government shake-up resulting in new exchange and economic control measures. The inflationary influence of the new "open" US \$ exchange rate was offset somewhat by the psychological effect of new US aid.

The Shanghai Market:	US \$ Exchange (Selling Rate)		Wholesale Price of Rice per 172 lb picul
	Official "open"	Blackmarket	
This week (9 Apr 48)	CN \$328,000	650,000	CN \$3,800,000
Week ago (2 Apr 48)	258,500	500,000	3,700,000
Month ago (9 Apr 48)	197,500	380,000	3,650,000
Year ago (9 Apr 47)	12,000	14,000	130,000

Foreign Trade. A press release in Shanghai states that under barter agreements with Japan, China has imported US \$25 million worth of Japanese goods and exported only US \$15 million, since V-J Day.

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AUSTRALIA

Motion of Censure against Labor Government defeated. On April 6, the Opposition moved a motion of censure against the Labor Government for failure to curb communist activities. Opposition leader Menzies charged Communists with fomenting widespread work stoppages, seeking to weaken the authority of industrial law, acting in the interest of a foreign power, and being organized in countries outside the USSR to overthrow majority rule. He claimed that the Labor Government had taken no adequate steps to combat Communist activities or to prevent the employment of Communists in the Public Service.

In reply the Prime Minister reiterated his Party's refusal to outlaw any political group, stating that where necessary Communists would be dealt with as individuals under the law. He expressed his belief that repressive measures only served to strengthen aggressive minorities and that the most effective way to combat Communism was by improving the conditions of the people. Regarding Communist domination of the trade unions, he felt that it was not up to the Government to control the trade unions, but for the trade unions to see to it that they were not controlled by Communists.

After a two day debate the censure motion was defeated by 40 to 27.

Bank Nationalization Act case continues before the High Court. The Bank Nationalization Act is still before the High Court, with Dr. Evatt presenting the case for the Government. Informed press and legal circles are predicting that the Act will be declared unconstitutional, in which case the Government could take it to the UK Privy Council, seek to amend the Constitution, or abandon it entirely. While the Government has given no indication of the course it would follow, it is most likely to carry the case to the Privy Council. It is already seeking to amend the Constitution to provide for permanent price control, and a further amendment on monetary control might jeopardize success in both fields and would provide more ammunition to the Opposition. In view of the Government's persistence in presenting and passing the Nationalization legislation in the face of widespread opposition and declining political prestige, it is unlikely that the legislation will be dropped until all possibilities for its enactment have been exhausted.

NEW ZEALAND

Labor Party views. The Standard, official newspaper of the New Zealand Labor Party, in a recent editorial expressed the Party's view that effective action to combat Communism lies in the initiation of positive measures to achieve economic well being rather than through shows of strength and extension or withdrawal of US financial aid. It advocates democratic socialism as the political system most likely to yield economic security without sacrificing personal freedom. It believes that Britain is more likely to provide leadership in this respect than is the U.S. Acknowledging the dangers of the Communist problem, it counsels tolerance and understanding of Russia as a necessary adjunct to combatting the Communist menace at home.

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PHILIPPINES

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[redacted] optimistic over re-establishment of law and order.

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25X1X [redacted]
25X1X [redacted] said that Roxas' 6 March declaration outlawing the Huks and the PKM (National Peasants' Union) had had an excellent effect and was resulting in radically reduced support of the dissidents. According to [redacted] peasants fear criminal prosecution as a result of the President's order and are now refusing to supply the Huks. 25X1X [redacted] further stated that "many important dissident leaders" have made overtures with a view to surrendering to the Constabulary and that, because of the dissidents' logistical problem, considerable progress is expected in re-establishing law and order. 25X1X [redacted]
25X1 [redacted]

25X1X The Philippine Constabulary, charged with implementing President Roxas' declaration, has commenced to screen the Central Luzon population for possible Huk and PKM members only after much official confusion and contradiction. For detentions, according to [redacted] exceed 6 hours. Suspects are required to appear for questioning bringing one meal and are normally permitted to return home the same day. It is not yet clear what legal action the courts will institute against peasants charged with being members of illegal organizations.

25X1X In the absence of complete reports on implementation of President Roxas' order outlawing the dissidents, [redacted] preliminary estimate is difficult to evaluate. It is likely that the Huks will be deprived of some support by a fearful peasantry and that some of their leaders will be apprehended. How significant this factor will be probably depends in general upon how quickly and efficiently the Constabulary completes its screening operation and specifically upon whether or not those who are "screened" and "cleared" return to old habits and sympathies.

Supreme Court holds payments in Japanese currency valid. Of particular importance to US and other banks which have reopened in Manila since the war, is a decision of the Philippine Supreme Court handed down last week which holds that payment in Japanese military currency during the occupation of debts owed the foreign banks are valid and that Japan had full right under international law to liquidate the assets of the alien banks. The only recourse left open to the banks by the court is to collect the money from the Japanese Government or to take the losses as a "natural incident of war." The case had been before the Supreme Court for over two years and reverses a decision of a lower court.

During the Occupation, Philippine-owned banks continued operating and payments to them generally have been treated as valid although deposits in "Mickey Mouse" currency were declared null and void. The Japanese liquidated the foreign-owned banks and demanded payment of money owed them. Over 34 million pesos was received by the Japanese liquidator between 1942 and 1945.

Although details of the recent decision are not yet available it is apparent that it favors, at the expense of the foreign banks, those persons who were in a position to pay off their debts during the occupation. In this it succeeds where two legislative efforts have failed. In early 1946,

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before independence, a bill was passed validating fiat currency transactions during the occupation, but it was disapproved by President Truman. A later attempt to pass a similar bill was effectively discouraged by President Roxas.

USSR attempts to release Tass through Tagalog daily. An agent of the Soviet News agency, Tass, is reported to have attempted unsuccessfully to place his service with the leading Tagalog daily "Bagong Buay" during the recent ECAFE conference at Baguio. The official Soviet news service is reported to have been offered free of charge to Manuel Manahan, editor and publisher of the Manila daily.

Laurel stresses nationalistic policy in Philippine tour. Jose P. Laurel, Japanese occupation president of the Philippines and chief prospective rival of President Roxas for the 1949 presidential elections, is currently making a flying tour of the entire Philippines. He continues to emphasize a nationalistic policy and to insist upon US non-interference in the fields of economics and foreign relations. At a meeting of 200 prominent anti-Roxas men in Iloilo, Laurel told his audience, "I am not only available but also expendable," and criticized the Administration for not applying itself sufficiently to the interests and needs of the Filipino people. In Baguio he stated that he should not be considered anti-American merely because he opposed parity. He declared that alien investments are indispensable to complete rehabilitation but that they should be limited and warned foreigners to stay out of internal affairs. In a number of addresses Laurel stressed charges of graft and corruption in the present government.

President Roxas, whose candidacy was announced last month by the executive head of the Liberal Party, to date has made no reply to Laurel's criticisms. The President continues, however, to stress in all of his speeches the necessity of close economic and military cooperation with the United States.